This record is a partial extract of the original cable. The full text of the original cable is not available.

011443Z Apr 03

UNCLAS HARARE 000653

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: EAGR ECON EINV ETRD ZI
SUBJECT: GOZ Ups Grain Subsidy

Ref: a) Harare 152 b) Harare 489

¶1. (U) Summary: The GOZ has increased nearly 4-fold the amount it pays growers for maize. By leaving the crop's low consumer price intact, however, the cash-starved GOZ assumes a weighty subsidy. End summary.

¶2. (U) The GOZ also announced an approximate doubling of the producer price for wheat. Through its Grain Marketing Board (GMB), the GOZ plays a middleman role between growers and millers/retailers. At present prices, the GOZ will subsidize 93 percent of the maize cost and 81 percent of the wheat cost.

Candid Assessment from Within GOZ

¶3. (SBU) A high-level GOZ official told DCM he was scheduled to go to State House and attempt to convince the powers-that-be that it is also necessary to raise the price of maize to consumers. He said past arguments for a price hike had been rebuffed on grounds that it would drive the population toward the opposition. The official argued that shortages and corruption spawned by artificially-low prices does the same, minus any palliative effect. He concludes that the point may be moot anyway: The new producer price is still far enough below prevailing market prices that he doubts the GMB will capture much of this year's harvest.

Comment

¶4. (U) As with fuel (ref a) and energy (ref b), the GOZ's intervention in grain markets amid a free-falling economy has created a no-win predicament. At artificially low prices, producers/suppliers have no incentive to sell fuel, energy and food. If prices rise to market equilibrium, however, most Zimbabweans -- who now take home less than US$ 20/month -- cannot afford food and transport. Through the new subsidy, the GOZ seeks to avert shortages and mollify consumers (i.e., shift the supply-curve outward to intersect with demand at lower price levels). But it has simply swapped one macroeconomic distortion (low producer prices) for another (an unaffordable subsidy), another futile stunt to mask Zimbabwe's dizzying impoverishment.

Sullivan